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2005
AUDIT

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2005**

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 9
Supplementary Information	
Schedule of Functional Expenses	11

INDEPENDENT AUDITOR'S REPORT

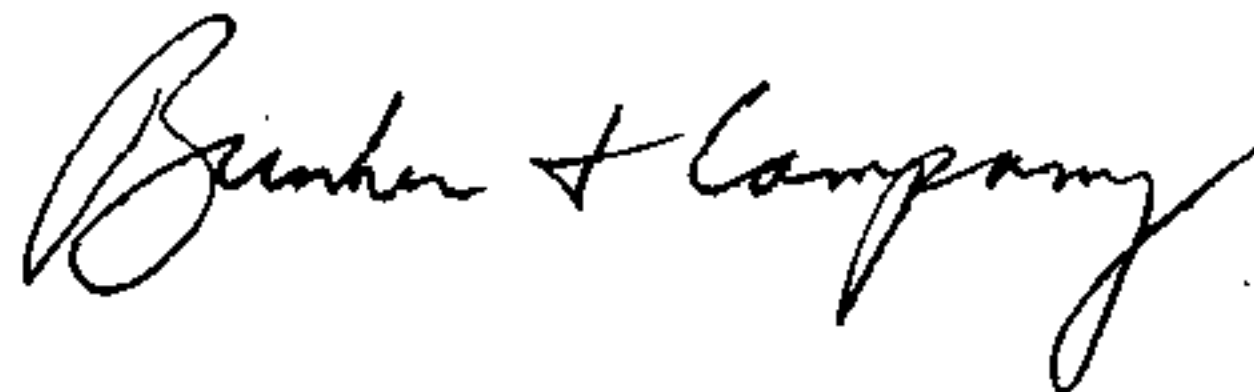
To the Board of Directors
Electronic Frontier Foundation, Inc.
San Francisco, California

We have audited the accompanying statement of financial position of Electronic Frontier Foundation, Inc. (a nonprofit public benefit corporation), as of December 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Frontier Foundation, Inc. as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the basic financial statements of Electronic Frontier Foundation, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



July 17, 2006

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
December 31, 2005

ASSETS

Current assets:	
Cash and cash equivalents (Note 1)	\$ 668,203
Grants receivable (Note 1)	207,500
Prepaid expenses	12,565
Inventory (Note 2)	<u>21,492</u>
Total current assets	909,760
Investments (Note 3)	1,066,042
Deposits	13,000
Equipment and leasehold improvements, net of accumulated depreciation of \$117,264 (Notes 1 and 4)	<u>443,932</u>
Total assets	<u><u>\$ 2,432,734</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	\$ 54,614
Accrued vacation liability (Note 5)	<u>8,651</u>
Total liabilities	<u>63,265</u>
Net assets (Note 6):	
Unrestricted net assets:	
Undesignated	231,604
Board-designated:	<u>1,345,766</u>
Total unrestricted net assets	1,577,370
Temporarily restricted net assets	<u>792,099</u>
Total net assets	<u>2,369,469</u>
Total liabilities and net assets	<u><u>\$ 2,432,734</u></u>

The accompanying notes are an integral part of these financial statements.

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
For the year ended December 31, 2005

	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE AND TRANSFERS			
Public support:			
Foundation and corporation grants	\$ 623,017	\$ 259,398	\$ 882,415
Donations and contributions	<u>1,150,070</u>	<u>-</u>	<u>1,150,070</u>
Total public support	<u>1,773,087</u>	<u>259,398</u>	<u>2,032,485</u>
Revenue:			
Memberships	635,605	-	635,605
Investment income (Note 3)	77,366	-	77,366
Litigation settlement	60,000	-	60,000
Loss on disposal of fixed assets, net	(41,188)	-	(41,188)
Miscellaneous	<u>10,248</u>	<u>-</u>	<u>10,248</u>
Total revenue	<u>742,031</u>	<u>-</u>	<u>742,031</u>
Net assets released from restriction (Note 7)	<u>104,460</u>	<u>(104,460)</u>	<u>-</u>
Total support, revenue and transfers	<u>2,619,578</u>	<u>154,938</u>	<u>2,774,516</u>
EXPENSES			
Program services	2,375,062	-	2,375,062
General and administrative	341,936	-	341,936
Fundraising	<u>186,512</u>	<u>-</u>	<u>186,512</u>
Total expenses	<u>2,903,510</u>	<u>-</u>	<u>2,903,510</u>
Change in net assets	(283,932)	154,938	(128,994)
Net assets, beginning of year	<u>1,861,302</u>	<u>637,161</u>	<u>2,498,463</u>
Net assets, end of year	<u>\$ 1,577,370</u>	<u>\$ 792,099</u>	<u>\$ 2,369,469</u>

The accompanying notes are an integral part of these financial statements.

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
For the year ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (128,994)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	25,253
Unrealized gain on investments	(70,503)
Realized loss on disposal of fixed assets	44,958
Contribution of marketable equity securities	(179,424)
Changes in assets and liabilities:	
Grants receivable	(182,500)
Prepaid expenses	7,391
Inventory	(21,492)
Accounts payable and accrued expenses	12,615
Accrued vacation liability	8,651
Total adjustments	(355,051)
Net cash used by operating activities	(484,045)

CASH FLOWS FROM INVESTING ACTIVITIES:

Net sale of investments	259,395
Purchase of equipment and leasehold improvements	(59,420)
Net cash provided by investing activities	199,975
Net decrease in cash and cash equivalents	(284,070)
Cash and cash equivalents, beginning of year	952,273
Cash and cash equivalents, end of year	\$ 668,203

Supplementary information:

Non-cash transactions:	
Contribution of marketable equity securities	\$ 179,424

The accompanying notes are an integral part of these financial statements.

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2005

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Electronic Frontier Foundation, Inc., a Massachusetts nonprofit public benefit corporation, was founded in July 1990 to work in the public interest to promote online privacy, freedom of expression, and social responsibility. The Corporation's primary sources of revenue are grants and contributions from foundations, corporations and individuals.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

Unrestricted net assets - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Temporarily restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Corporation pursuant to those stipulations.

Permanently restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

There were no permanently restricted net assets as of December 31, 2005.

Method of Accounting - The financial statements of the Corporation are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Accounts and Grants Receivable - It is the practice of the Corporation to expense uncollectibles only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and management believes all amounts will be collected in full.

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2005

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions - Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Equipment and Leasehold Improvements - The Corporation records equipment and leasehold improvements at historical cost or, if donated, at fair market value at the date of donation. Depreciation is determined on the straight-line method over the estimated useful lives ranging from 5 to 39 years.

Income Taxes - The Corporation is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and is considered by the IRS to be an organization other than a private foundation. In the opinion of management, there is no unrelated business income.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 INVENTORY

Inventory items are held for resale and promotion and are stated at the lower of cost or market value and are determined on a first-in, first-out basis. Inventory at December 31, 2005, consisted of the following:

T-shirts	\$ 16,463
Other clothing items	4,269
Cards and stickers	<u>760</u>
	<u>\$ 21,492</u>

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2005

NOTE 3 INVESTMENTS

Investments, which are carried at market value and are subject to market risk, consist of the following at December 31, 2005:

	<u>Cost</u>	<u>Market Value</u>
Corporate stocks	\$ 4,623	\$ 4,479
Mutual funds	600,000	734,448
Government and agency obligations	<u>329,198</u>	<u>327,115</u>
	<u>\$ 933,821</u>	<u>\$ 1,066,042</u>

The following summarizes the investment income during the year ended December 31, 2005:

Unrealized gain on investments	\$ 70,503
Interest and dividend income	<u>6,863</u>
	<u>\$ 77,366</u>

NOTE 4 EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

<u>Equipment and leasehold improvements, at cost</u>	<u>Leasehold Improvements</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance, December 31, 2004	\$ 418,723	\$ 187,026	\$ 605,749
Additions	22,413	37,007	59,420
Disposals	<u>-</u>	<u>(103,973)</u>	<u>(103,973)</u>
Balance, December 31, 2005	<u>441,136</u>	<u>120,060</u>	<u>561,196</u>
<u>Accumulated depreciation</u>			
Balance, December 31, 2004	44,352	106,674	151,026
Depreciation expense	10,885	14,368	25,253
Disposals	<u>-</u>	<u>(59,015)</u>	<u>(59,015)</u>
Balance, December 31, 2005	<u>55,237</u>	<u>62,027</u>	<u>117,264</u>
Equipment and leasehold improvements, net	<u>\$ 385,899</u>	<u>\$ 58,033</u>	<u>\$ 443,932</u>

NOTE 5 ACCRUED VACATION LIABILITY

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Corporation. The value of accumulated vacation at December 31, 2005, was \$8,651.

ELECTRONIC FRONTIER FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2005

NOTE 6 NET ASSETS

Unrestricted net assets:

The Corporation has unrestricted net assets that are not subject to donor imposed restrictions. The balance of unrestricted net assets at December 31, 2005, was \$1,577,370. Included in that amount are net assets that have been designated by the Board of Directors to be used for specific purposes, which totaled \$1,345,766 at December 31, 2005.

Temporarily restricted net assets:

These are contributions which were received with donor stipulations that limit the use of the assets for specific purposes and/or for specific time periods. Temporarily restricted net assets at December 31, 2005, are designated for the following uses:

Prime Number Contest	\$ 487,786
Chilling Effects Project	29,340
Digital Video Broadcasting Forum	220,871
Security Training and Organizing Project	9,187
Verify the Vote	<u>44,915</u>
	<u>\$ 792,099</u>

NOTE 7 NET ASSETS RELEASED FROM RESTRICTION

During the year ended December 31, 2005, the following temporarily restricted funds were used for their restricted purposes or were held for specific time periods, and they were released to unrestricted net assets:

Verify the Vote	\$ 29,460
Time-restricted funds	<u>75,000</u>
	<u>\$ 104,460</u>

NOTE 8 LEASES

The Corporation leases its offices in San Francisco, California under two non-cancelable operating leases that expire July 31, 2010. Rent expense for the leases for the fiscal year ended December 31, 2005, was \$111,647.

ELECTRONIC FRONTIER FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2005

NOTE 8 LEASES (Continued)

The estimated future minimum payments for the leases for the current and succeeding years are as follows:

<u>December 31,</u>	
2006	\$ 117,286
2007	121,972
2008	126,792
2009	131,803
2010	<u>78,817</u>
	<u>\$ 576,670</u>

NOTE 9 TAX SHELTERED ANNUITY

The Corporation has established a 403(b) deferred income plan for all eligible employees. Voluntary contributions are made by employees who choose to participate to the extent permissible by law. The Corporation makes no contributions under the plan and incurred no expenses during the year ended December 31, 2005.

NOTE 10 CONTINGENCIES

As of December 31, 2005, the Corporation had exceeded the Federal Depository Insurance Corporation limit of \$100,000 on its depository accounts. At December 31, 2005, the Corporation had approximately \$115,000 on deposit in excess of federally insured limits.

SUPPLEMENTARY INFORMATION

ELECTRONIC FRONTIER FOUNDATION, INC.
(A Nonprofit Public Benefit Corporation)

SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended December 31, 2005

	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 1,638,456	\$ 192,759	\$ 96,380	\$ 1,927,595
Professional fees	447,950	28,593	-	476,543
Office expenses	12,420	6,210	6,210	24,840
Telephone	9,023	7,361	7,361	23,745
Postage and delivery	4,495	4,495	10,554	19,544
Occupancy	75,088	37,544	37,544	150,176
Membership	12,515	6,257	6,257	25,029
Maintenance and repairs	1,857	929	929	3,715
Promotion and publications	34,655	29,141	14,964	78,760
Travel and conferences	66,278	-	-	66,278
Advertising	719	-	-	719
Depreciation	12,627	6,313	6,313	25,253
Other expenses	58,979	22,334	-	81,313
Total expenses	<u>\$ 2,375,062</u>	<u>\$ 341,936</u>	<u>\$ 186,512</u>	<u>\$ 2,903,510</u>